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UNCLAS OTTAWA 003586

SIPDIS

STATE FOR EB/TPP/BTA, EB/TPP/BTA/EWH AND EB/TPP/MTA

WHA/CAN - BREESE AND HOLST AND E - U/S SHINER

STATE PLEASE ALSO PASS TO USDA

DEPT PASS USTR FOR MELLE AND CHANDLER

USDOC FOR 4322/ITA/MAC/WH

E.O. 12958: N/A

TAGS: ECON ETRD EAGR CA WTRO

SUBJECT: WTO HONG KONG MINISTERIAL: INDUSTRIES PUBLICLY
LOBBY PRIME MINISTER ON AGRICULTURE

REF: OTTAWA 3519

¶1. Reftel reported a joint press availability at which trade ministers from the GOC and the provinces of Ontario and Quebec vowed to defend Canada's agricultural "supply management" system at the WTO. In subsequent days, the House of Commons unanimously passed a motion supporting supply management, which prompted various farm and business groups to address public letters to Prime Minister Paul Martin criticizing the motion or (in the case of dairy, egg and poultry farmers who benefit from the system) supporting supply management.

-- Canada's two leading big-business lobbies, the Canadian Council of Chief Executives and the Canadian Chamber of Commerce, separately wrote to protest the House of Commons motion. The CCCE said it "threatens to move Canada from being part of the solution to the current impasse to being part of the problem." The CCC said the motion "would totally marginalize Canada in the agriculture discussions" and "is a contradiction to the already agreed upon WTO Framework that Canada supported."

-- A large coalition of agricultural and food industries wrote to PM Martin on November 30, also to protest the House of Commons motion. This letter said that the negotiating mandate implied by the motion would "remove Canada's agriculture negotiators from agriculture market access negotiations" and "would also likely exclude them from negotiations on export competition and subsidies." "A mandate like this would also send a clear message to the rest of the world . . . that Canada no longer supports the overall goal of the World Trade Organization."

-- An opposing coalition of dairy, poultry and egg farmers placed prominent newspaper ads on December 1 calling on the negotiating team to "promote" supply management because it "simply makes more sense than the U.S.-style alternative."

¶2. MOTION: The motion, proposed by two Quebec members and passed unanimously by the House of Commons on November 22, urges the GOC to "ensure that the supply management sectors are subject to no reduction in over-quota tariffs and no increase in tariff quotas, and also ensure an agreement that strengthens the market access position of Canada's agricultural exporters so that all sectors can continue to provide producers with a fair and equitable income."

¶3. BACKGROUND: "Supply management," which developed in the 1960's and 1970's, uses a combination of production quotas and tariff rate quotas to manage the domestic supply of dairy, egg and poultry products. Farmers who are protected by this system are concentrated in the central provinces where the Liberal government is based (particularly Ontario) and faces its toughest fight in the coming January 23 national election (particularly Quebec). Production quotas have appreciated greatly in market value over time, making the farmers in these sectors -- notably Quebec's dairy industry -- a formidable lobby. Canada's grain and cattle farmers, who are concentrated in the western provinces, are much more interested in trade liberalization efforts and are also more likely to be represented by the opposition Conservative Party. This regional division lends an important national-unity sensitivity to Canada's WTO positions.

WILKINS